

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6905

BILL NUMBER: HB 2038

DATE PREPARED: Feb 11, 2001

BILL AMENDED:

SUBJECT: Education Tax Credits.

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FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides an Adjusted Gross Income (AGI) Tax refundable credit for certain elementary and secondary education expenses. It specifies the various expenses that are qualified education expenses for credit purposes for dependents who are:

- (1) enrolled in an accredited nonpublic school;
- (2) enrolled in a nonaccredited nonpublic school;
- (3) not enrolled in a school; or
- (4) enrolled in a public school.

The bill also requires participation in the ISTEP program for tax credit eligibility but allows certain students to substitute other approved tests for the ISTEP test. It provides that a taxpayer having dependents in both public schools and nonpublic education may claim only one credit.

For taxpayers having dependents enrolled in a school, the bill establishes the maximum amount of the credit for household incomes under \$35,000 at \$1,000 per child or \$2,000 per family and for household incomes over \$35,000 at \$500 per child or \$1,000 per family. For taxpayers having dependents who are excused from school (public or nonpublic) attendance, it establishes the maximum amount of the credit at \$1,000 per child or family regardless of household income.

This bill also requires the Department of Education to develop a list of certain programs approved for tax credit purposes and to administer the ISTEP program requirement for certain students.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) and the Department of Education (DOE) would incur some new expenses related to the administration of this tax credit and additional ISTEP exams. However, given the budgets and resources of these entities, it is expected that the

costs could be absorbed.

The DOR would need to amend tax forms, instructions, and computer programs to accommodate the new credit. The DOE would be required to develop criteria and establish a list of programs that will qualify for academic instruction outside of a normal schooling. It must also administer ISTEP for students enrolled in non-accredited nonpublic schools and home-schooled children whose parents desire to claim the tax credit. The Department must provide documentation to the parents of these children and must also administer the test at no charge.

Explanation of State Revenues: *The loss of Individual AGI Tax revenue associated with this proposal is projected to be approximately \$138.1 M in FY 2002 and \$148.9 M in FY 2003.*

This bill establishes an income tax credit for certain educational expenses incurred for K-12 level students in public and nonpublic schools and for those of equivalent grade level who are home-schooled. Qualified educational expenses are defined as fees for academic instruction, textbooks, instructional materials, and computer hardware and software. Qualified expenses for students enrolled in a nonpublic school also include tuition and transportation costs while fees for transfer tuition are included for public school children. Expenses for textbooks, instructional materials, computers, and software are limited to \$200. However, parents of home-schooled children would be allowed a maximum of \$1,000 for textbooks and instructional materials.

For taxpayers whose household income is \$35,000 or less, the credit is limited to the lesser of the following: (1) the amount of qualified educational expenses; (2) \$1,000 per dependent; or (3) \$2,000 per family. For taxpayers whose household income exceeds \$35,000, the credit is limited to the lesser of the following: (1) the amount of qualified expenses; (2) \$500 per dependent; or (3) \$1,000 per family. For taxpayers who provide home-schooling for their children, the maximum credit is \$1,000 per family regardless of income.

The tax credit is refundable and is effective beginning January 1, 2001. The loss of Individual AGI Tax revenue associated with this proposal is projected to be approximately \$138.1 M in FY 2002 and \$149.9 M in FY 2003. Individual income tax revenue is deposited in the General Fund.

Background Data: For the first year of impact (CY 2001) this analysis uses DOE data to project a student population with approximately 955,000 public school children, 129,500 nonpublic school children, and 17,500 home-schooled children.

The proportion of households above and below the \$35,000 threshold in this bill was calculated based on the income of taxpayers claiming exemptions for children using DOR's 1998 individual income tax data. According to this data, 45.6% of these students are from families where the household income is \$35,000 or less and would therefore be eligible for the higher maximum credit amount.

Penalty Provision: The bill establishes a Class A misdemeanor for any individual who violates certain provisions regarding the distribution of ISTEP test results. If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Explanation of Local Expenditures: *Penalty Provision:* A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: *Penalty Provision:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

State Agencies Affected: Department of Education, Department of State Revenue.

Local Agencies Affected: Trial courts, local law enforcement agencies.

Information Sources: Minnesota Department of Revenue, Department of Education, Department of State Revenue.